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¶1. (SBU) Summary: The Philippine Department of Energy has set ambitious goals for increasing energy self-sufficiency to 60%, but the country is unlikely to meet these goals. Potential significant hydrocarbon reserves in the South China Sea could make an important contribution to the Philippine energy situation, but regulatory obstacles and conflicting territorial claims stand in the way of aggressive exploration and development. Although the country has a mix of other energy sources, none appear likely to make a major dent in the current Philippine dependence on oil imports. End summary.

¶2. (U) High food and fuel prices recently thrust energy security into prominence in the Philippines. Government officials have called for less dependence on foreign energy, which currently supply some 60% of the needs of the country. The Philippine Department of Energy has recently announced its intention to increase the output of domestic sources from the current 40% to 60% of total domestic energy demand by 2014. To meet this ambitious goal, the Philippines must increase oil and gas production by over 20%. Rapid expansion of the offshore Camago-Malampaya oil and natural gas project would be key to reaching this goal.

¶3. (U) The Camago-Malampaya project is the largest proven natural gas deposit in the Philippines. It currently supplies about 95% of the country's natural gas. Natural gas accounts for about 7% of total Philippine energy consumption. Natural gas from the offshore fields is refined and sent through a 312-mile pipeline to three onshore power plants, directly into the grid that supplies Manila. These three power plants represent 20% of the country's total generating capacity. The Philippines does not import nor export natural gas.

¶4. (U) The Camago-Malampaya fields contain an estimated reserve of between 2.3 and 4.4 trillion cubic feet of natural gas. At the low end, the fields are smaller than the proven reserves of Cuba, the world's 60th largest reserve. At the high end, the fields are bigger than the proven reserves of Mozambique, the world's 49th largest reserve.

¶5. (U) Dutch-owned Shell discovered the Camago-Malampaya fields in 1990 and remains one of three partners in the joint venture that operates the gas fields (the others are U.S. company Chevron Malampaya LLC and the Philippine National Oil Company Exploration Corporation-PNOC). The project began production in 2002 and is expected to supply the domestic power industry with natural gas until 2022.

¶6. (U) About 150 million barrels of oil may lie beneath the natural gas deposits at the Camago-Malampaya fields. This is a sizable reserve compared to Philippine production and trade figures. The Philippines consumes 340,000 barrels per day, more than 10 times what it produces. As a result, the country is a net importer of 318,800 barrels per day.

¶7. (U) Exploitation of offshore co-located gas and oil resources requires sophisticated technology. As more natural gas is extracted, it becomes harder to remove the oil beneath it. Geopolitical issues also impede development of reserves in the South China Sea. The Camago-Malampaya fields are located about 80 kilometers off the northwest coast of Palawan, the westernmost island in the Philippine archipelago, within the South China Sea area claimed by China (see reftel). At present, China does not object to its development, and there is an amicable relation between the Philippine National Oil Company and the China National Offshore Oil Company. China, the Philippines, and Vietnam have shared data from the recently completed second phase of the Joint Marine Seismic Undertaking.

¶8. (U) Accord to local petroleum industry executives, relatively little test drilling has been done in the waters adjacent to the Philippines in the South China Sea, even though experts believe there are indications the area could contain large reserves. The Philippines has restrictions on cost recovery in its petroleum service contracts and other regulatory issues that make it a less appealing place to explore for hydrocarbons than other countries in the region. Consequently, the Philippines drilled far fewer offshore well than have neighboring countries.

¶9. (SBU) The president of the Petroleum Association of the

Philippines recently explained to us several reasons for more robust drilling in other ASEAN countries. He said the Philippine government is slow to grant drilling concessions, and drilling permits frequently require many months for approval. Further, he added, most other ASEAN states allow companies to average expenses between successful finds and dry holes. He also suspected that cronyism has thrown the last several exploration permits to an inexperienced, unqualified company.

¶10. (U) As reported reftel, under the UN Convention on the Law of the Sea, the Philippines has until May 2009 to delineate its archipelagic borders and establish its Exclusive Economic Zone. According to some politicians, failure to meet this deadline could jeopardize Philippine claims to these resources.

¶11. (SBU) Comment: To achieve its energy goals, the Philippines needs to encourage more exploratory drilling in adjacent waters by technically competent companies. The increased emphasis that regional economies now place on controlling proximate strategic resources could lead to increased regional cooperation in exploiting these resources. End Comment.